

# LEGISLATIVE AUDIT COMMISSION



Review of  
Illinois Liquor Control Commission  
Two Years Ended June 30, 1998

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**REVIEW: 4066**  
**ILLINOIS LIQUOR CONTROL COMMISSION**  
**TWO YEARS ENDED JUNE 30, 1998**

**FINDINGS/RECOMMENDATIONS - 3**

**ACCEPTED - 1**  
**IMPLEMENTED - 2**

**REPEATED RECOMMENDATIONS - 0**

**PRIOR AUDIT FINDINGS/RECOMMENDATIONS - 2**

This review summarizes the audit of the Illinois Liquor Control Commission for the two years ended June 30, 1998, filed with the Legislative Audit Commission February 24, 1999. The auditors performed a financial and compliance audit. The auditors stated the financial statements of the Commission are fairly presented.

The Illinois Liquor Control Commission was created by the General Assembly to license and regulate the alcoholic beverage sales of retailers, distributors (operating inside and outside the state), wholesalers, manufacturers, and other liquor concerns. As mandated by the State statutes, the Commission has developed and distributed formal rules and regulations to which liquor licensees must adhere.

The Commission consists of five members appointed by the Governor with the advice and consent of the Senate. The Governor designates one Commission member as chairperson. The Commissioners and legal staff hold hearings to determine whether violations warrant monetary fines, license suspension, or license revocation. Commissioners also hear Department of Revenue cases dealing with insufficient payments of State sales taxes by liquor licensees and appeals of cases originally decided by local liquor commissions.

Appendix A summarizes the number of licenses issued, investigations performed, and penalties imposed by the Commission for FY96 - FY98. Also included is the number of citations issued, fines, and recovered taxes. Functions performed by the Commission's investigative staff include routine inspections, investigations of formal complaints, and multiple visits for lengthy special investigations.

The current Executive Director of the Illinois Liquor Control Commission is Mr. Sam Panayotovich, who was appointed to the position in February of 1999. Prior to this, Mr. Panayotovich served as the Commission's Associate Director since January 1993.

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The average number of employees was:

1998 - 53; 1997 - 53; 1996 - 54.

Approximately 26 of the employees are investigative staff.

### **Expenditures From Appropriations**

Appendix B presents a summary of appropriations and expenditures for the period under review. The General Assembly appropriated a total of \$4,022,200 to the Commission in FY98, all of which was appropriated from the Dram Shop Fund. Expenditures increased from \$3,396,990 in FY97 to \$3,556,434 in FY98, an increase of \$159,444, or 4.57%.

General Office:

- Expenditures increased \$23,872 (26.4%) in FY98 over FY 97 because the General Assembly increased the rate of payroll deductions for retirement from approximately 5% to the 9.8%.

Retailer Education:

- Expenditures decreased by \$89,714 (79.4%) from FY97 to FY98 since EDP equipment purchases were moved to the Field Automation Lump Sum (\$87,900), offsetting this variance.
- Expenditures increased by \$15,882 (26.24%) from FY97 to FY98 because a new program manager was hired in June and both employees covered under this appropriation worked the full year.

Tobacco Study Project:

- Expenditures increased \$145,354 (50.2%) from FY97 to FY98 because the Commission was awarded a \$230,000 contract by the U.S. Food and Drug Administration (FDA) to perform inspections of Illinois tobacco vendors.

The Automated Field Reporting System Lump Sum:

- The Bureau of the Budget allowed the Commission to create this lump sum to purchase hardware and software to implement the statewide computerized filed agent reporting system. The concept was tested the prior year using four selected field agents. The program has made field operations more efficient, more

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accurate, and more timely. The time from “date of inspection” to “official notice of a penalty” has dropped from 90 days to 30 days.

### **Cash Receipts**

Appendix C presents a summary of the Commission’s cash receipts. The Commission collects General Revenue Fund receipts primarily from fines and penalties for violations. Cash receipts deposited in the General Revenue Fund increased from \$478,621 in FY96 to \$761,452 in FY98. Revenue is also received from the issuance of liquor licenses to retailers, manufacturers, importers, and others involved in the distribution of alcoholic beverages. These receipts are deposited in the Dram Shop Fund. Deferred revenue consists of license fees collected in advance of the period for which the license applies. Cash receipts in the Dram Shop Fund increased from \$4,097,425 in FY96 to \$4,348,645 in FY98.

### **Property and Equipment**

Appendix D summarizes the changes in property and equipment for the Commission. The beginning balance as of July 1, 1996 was \$538,997 compared to an ending balance of \$629,111 on June 30, 1998, a net increase of \$90,114, or 14%.

### **Accountants’ Findings and Recommendations**

Condensed below are the three findings and recommendations included in the audit report. There were no repeated recommendations. The following recommendations are classified on the basis of information provided by Sam Panayotovich, Executive Director, in a letter dated March 17, 1999.

### **Accepted**

- 1. Formally develop written policies and procedures on the release of equipment for use outside the Commission office.**

**Findings:** The Liquor Control Commission has no written policy on the authorization and accounting procedures for equipment assigned to employees for use outside the Commission’s office.

Computer equipment totaling approximately \$100,660 was assigned to field agents. However, there was no standard equipment release form justifying on-location use, the

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terms, conditions, and approval for release of the equipment, or the employee to which the equipment was assigned.

### **Accepted - concluded**

**Response:** The Commission agrees and is in the process of preparing all of the proper authorization forms, the inventory lists, and employee sign-off sheets so that there are paper tracking controls over all field equipment. These records will be maintained by the Fiscal Division in the inventory control system.

### **Implemented**

- 2. The Administrative Review Process (ARP) Manual, and any changes or updates, should be formally approved for implementation and effective dates be indicated in the manual to establish the authority and scope of the policies and procedures.**

**Findings:** The Commission developed an Administrative Review Process (ARP) Manual to provide written policies and procedures in the disposition of violations and assessment of fines in accordance with the Liquor Control Act. There was no formal documentation on file showing that the Commissioners had approved the ARP Manual. The Manual did not specify the effective date of the provisions.

The ARP Manual provides for a consistent application of procedures and encompasses the whole adjudication process. Without a formal approval process, the implementation of the provision could be challenged and regarded as unauthorized.

**Response:** The Commission agrees. The Chairman and Executive Director have instituted a procedure whereby the Commissioners will sign-off on and date any new, revised, updated, or corrected policy.

- 3. Conduct an inventory of all pagers on hand. Any unaccounted for or unassigned pagers should be canceled and monthly billings should be checked to verify that charges are made only for activated pagers.**

**Findings:** Payments were made on six pagers (four unaccounted for and two unassigned) totaling \$850.

**Response:** The Commission agrees. Inventory lists of pager devices are now maintained by the Agent Coordinator in the Investigations Division. Before invoice vouchers are paid, the Agent Coordinator verifies that the devices are assigned and activated.

### **Emergency Purchases**

The Illinois Purchasing Act (30 ILCS 505/1) states that “the principle of competitive bidding and economical procurement practices shall be applicable to all purchases and contracts ...” The law also recognizes that there will be emergency situations when it will be impossible to conduct bidding. It provides a general exemption for emergencies “involving public health, public safety, or where immediate expenditure is necessary for repairs to State property in order to protect against further loss of or damage ... prevent or minimize serious disruption in State services or to insure the integrity of State records.”

State agencies are required to file an affidavit with the Auditor General for emergency procurements that are an exception to the competitive bidding requirements per the Illinois Purchasing Act. The affidavit is to set forth the circumstance requiring the emergency purchase. The Commission receives quarterly reports of all emergency purchases from the Office of the Auditor General. The Legislative Audit Commission is directed to review the purchases and to comment on abuses of the exemption.

During both FY97 and FY98, the Commission did not file any affidavits for emergency purchases.

### **Headquarters Designations**

The State Finance Act requires all State agencies to make semiannual headquarters reports to the Legislative Audit Commission. Each State agency is required to file reports of all of its officers and employees for whom official headquarters have been designated at any location other than that at which their official duties require them to spend the largest part of their working time.

The Liquor Control Commission indicated as of July 1998, the Commission had 33 employees assigned to locations other than official headquarters.

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**ILLINOIS LIQUOR CONTROL COMMISSION**  
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**APPENDIX A**

**Selected Activity Measures**

	<b><u>1998</u></b>	<b><u>1997</u></b>	<b><u>1996</u></b>
<b><u>License Receipts</u></b>			
Retailers	\$ 3,705,800	\$ 3,670,625	\$ 3,721,475
Distributors	73,410	73,325	74,520
Non-resident	77,850	70,590	67,200
Miscellaneous	328,636	309,563	281,025
<b>Total</b>	<b><u>\$ 4,185,696</u></b>	<b><u>\$ 4,124,103</u></b>	<b><u>\$ 4,144,220</u></b>
<b><u>Licenses</u></b>			
Retailers	21,176	20,608	21,267
Distributors	253	252	276
Non-resident	723	638	631
Miscellaneous	4,250	3,573	3,649
<b>Total</b>	<b><u>26,402</u></b>	<b><u>25,071</u></b>	<b><u>25,823</u></b>
<b><u>Citations</u></b>			
Sales Taxes	1,141	999	975
Other Violations	5,188	5,887	4,636
Local Appeals	37	46	39
<b>Total</b>	<b><u>6,366</u></b>	<b><u>6,932</u></b>	<b><u>5,650</u></b>
<b>Investigations</b>	<b><u>20,344</u></b>	<b><u>21,858</u></b>	<b><u>26,707</u></b>
<b>Monetary Fines</b>	<b><u>\$ 742,063</u></b>	<b><u>\$ 696,770</u></b>	<b><u>\$ 474,691</u></b>
<b>Recovered Taxes</b>	<b><u>\$ 2,059,330</u></b>	<b><u>\$ 1,927,473</u></b>	<b><u>\$ 3,215,810</u></b>

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**APPENDIX B**

**Summary of Appropriations and Expenditures**

	FY 98	Expenditures	
	<u>Appropriation</u>	<u>FY98</u>	<u>FY97</u>
<b><u>Dram Shop Fund</u></b>			
<b>General Office</b>			
Personal services	\$ 1,847,300	\$ 1,758,367	\$ 1,769,116
Retirement pick-up	73,900	69,388	67,894
Retirement	120,100	114,372	90,500
Social security	134,910	130,816	129,218
Group insurance	265,000	226,027	217,379
Contractual services	328,476	300,910	306,841
Travel	103,300	102,092	105,918
Commodities	16,550	16,265	19,887
Printing	9,200	7,137	9,193
Equipment	20,424	20,424	12,317
Electronic data processing	23,250	23,230	112,944
Telecommunications	70,300	70,089	69,454
Operation of Auto	100	25	-
Refunds	2,690	2,640	1,452
<b>TOTAL</b>	<u>3,015,500</u>	<u>2,841,782</u>	<u>2,912,113</u>
Retailer Education	248,800	191,743	195,192
Tobacco Study	670,000	435,039	289,685
Automation Investigative Staff	87,900	87,870	289,685
<b>GRAND TOTAL</b>	<u>\$ 4,022,200</u>	<u>\$ 3,556,434</u>	<u>\$ 3,396,990</u>



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**APPENDIX C**

	<u><b>Cash Receipts</b></u>		
<u><b>General Revenue Fund</b></u>	<u><b>FY98</b></u>	<u><b>FY97</b></u>	<u><b>FY96</b></u>
Fines/Penalties	\$ 742,063	\$ 696,770	\$ 474,691
Duplicate licenses	6,761	3,668	3,840
Miscellaneous	12,628	7,567	90
<b>Total General Revenue Fund</b>	<b>761,452</b>	<b>708,005</b>	<b>478,621</b>
<u><b>Dram Shop Fund</b></u>			
License fees -			
Current year	3,913,011	4,066,009	3,888,201
Deferred FY97	-	-	58,095
Deferred FY98	-	272,685	-
Deferred FY99	281,520	-	-
Miscellaneous	4,114	4,508	1,129
DASA Tobacco Transfer	150,000	150,000	150,000
<b>Total Dram Shop Fund</b>	<b>4,348,645</b>	<b>4,493,202</b>	<b>4,097,425</b>
 <b>Grand Total</b>	 <b>\$ 5,110,097</b>	 <b>\$ 5,201,207</b>	 <b>\$ 4,576,046</b>

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**APPENDIX D**

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**Summary of Property and Equipment**

	<u>FY98</u>	<u>FY97</u>
<b>Beginning Balance, July 1</b>	<b>\$ 580,045</b>	<b>\$ 538,997</b>
Additions -		
Equipment	<u>89,700</u>	<u>59,526</u>
Deductions -		
Equipment	<u>(40,634)</u>	<u>(18,478)</u>
<b>Ending Balance, June 30</b>	<b><u>\$ 629,111</u></b>	<b><u>\$ 580,045</u></b>

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